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FACT SHEET ON SLIDING SCALE OR VARIABLE PAYMENT FARM LEASES 1/

Every month of the year, depending on where they live, tenants, veterans, war workers, and others who plan to rent a farm, will sign leases. But before "signing on the dotted line," both the tenant and the landlord who use a cash rent lease should consider the sliding-scale or variable-payment plan which has many advantages over fixed cash rentals.

Under the sliding-scale plan the landlord and tenant share equitably in the benefits of rising farm prices and, conversely, equity also prevails when the market falls to subnormal levels. And, during crop-failure years the tenant may be protected by the insertion of a proper emergency clause along with the sliding-scale provision so that the rent to be paid is in line with the renter's ability to pay. Generally, none of these desirable features are part of the fixed cash rent lease.

Thus, the sliding-scale or variable-payment plan is in effect a method by which cash rentals are based upon prices received by the tenant for his produce. If prices go up, he pays more rent; if they fall, he pays less. If, for instance, he raises only wheat, his cash rent is based on the going price of wheat, but if he raises several crops, his rent is adjusted to an average of the price received for the most important ones.

An emergency clause is usually made a part of the sliding-scale lease which provides that the rental will also depend on actual production. If, for instance, the crop is only 50 percent of normal through no fault of the tenant, the rent would be reduced accordingly; whereas, the rent would be increased if production conditions were above normal. In any event, the actual amount of rent due the landlord is specifically determined at the end of the year.

The essential steps to be taken in arriving at the amount of rent due under a sliding-scale or variable-payment lease are these:

(1) When the farm is rented, the landlord and tenant agree as to what a fair cash rent per acre would have been for some previous year or period of years. This figure, say $5.00, is called the base rental.

(2) At the end of the year, the average State (or area) index of prices for that year (or for the first 11 months as for a plan used in Iowa) is divided by the average price index for the base period. If, for example, the average for the lease year is 180, and only 90 for the base period, the quotient is 2. This, multiplied by the base rental--the $5.00 in item 1--is $10.00, the cash rent per acre for the year. If, however, the index of farm prices should fall to an average of 45, then, by the procedure used above, the rent would be only $2.50 (45 divided by 90 - 0.5 multiplied by $5.00 = $2.50).

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(3) If the lease contains an emergency crop-failure clause and actual production for the year is much above or below normal, the rent would be adjusted in accordance with the yield.

A fixed cash rental, particularly in long- term leases, subjects both the landlord and the tenant to unnecessary risks and disadvantages. If prices decline to a low level or if the yield is below normal, the tenant suffers because he is committed to pay a fixed sum based on normal or anticipated conditions. If a series of bad years occur the tenant may not be able to pay his rent in which event the landlord would not only be likely to lose his rent but also an experienced tenant. On the other hand, if prices go up or production conditions are excellent, the landlord suffers because he does not participate in these increases.

During the years of agricultural readjustment after the war it would seem particularly important that both landlords and tenants consider the merits of sliding-scale or variable-payment rentals as compared to fixed cash rentals. The merits and demerits of the two plans should especially be brought to the attention of returning veterans who plan to farm.

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